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TREASURY DEPARTMENT

Latin American Situation

September 29, 1982

Growing international concern about the ability of various countries to service their debt has increased the difficulty of a number of Latin American countries to obtain necessary foreign financing during the remainder of this year and in 1983. Many Latin American countries are trying to distance themselves from the financial problems of Argentina, Mexico and Poland, but general international concern is taking its toll.

ARGENTINA

Argentina is in the midst of a severe short-term liquidity crisis and requires at least \$1 billion in new external finance to remain liquid over the next 30-60 days. It also needs to restructure its debt (\$39 billion, including \$2.3 billion in arrears) and has begun to talk to an advisory group of banks.

Argentina is negotiating a one-year IMF standby, which will make it easier for bankers to agree to a refinancing of Argentina's debt in order to lengthen the maturity structure. Negotiation with the IMF and with the banks may be difficult and protracted. Argentina's medium-term balance of payments outlook remains basically sound.

BOLIVIA

Bolivia failed to make a \$10 million payment due on September 10 to a consortium under the terms of its informal April 1981 rescheduling agreement. Additional payments of \$40 million were missed over the following few days. Bolivia has had chronic debt problems while it has been negotiating on-and-off with the IMF for a stabilization program since 1980. Although Bolivia's debt is large for the size of the country, it is not a large player on the international debt scene.

BRAZIL

Brazilian access to external credit dried up in September, as creditor anxiety in response to the Mexican situation and a lack of Brazilian progress in controlling inflation and the current account deficit took their toll. GOB officials claim that European, Japanese and regional U.S. banks have halted all new lending to Brazil. Planning Minister Delfim Netto met with bankers in New York during the week of September 27 to try to convince them that Brazil has strengthened its adjustment program and will be reducing its financing needs.

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Brazil must raise about \$4 billion in medium and long-term external credits during the remainder of this year, even if maturing debts are all rolled over. The current account deficit in 1982 will exceed \$10 billion for the fourth straight year. Brazil will face serious balance of payments financing problems in 1983 unless a more realistic exchange rate policy is adopted in conjunction with sounder fiscal and monetary policies.

In late 1980 Brazil faced a similar lack of foreign bank confidence. Brazil took stabilization measures which reversed the situation. There is general confidence in Brazilian economic management, and the Brazilians indicate that they will take the steps needed to strengthen their position.

CHILE

Chile's economic policies are market-oriented and basically sound. Major adjustments in policies were made at mid-year. However, Chile has been hit hard by the fall in copper prices. It also has a rather large amount of debt relative to GDP. External payment problems are not expected in 1982, but the situation will worsen in 1983 if world economic recovery is weak. The GOC is seeking a \$500 million 2-year IMF standby and a \$300 million Compensatory Financing Facility drawing.

CUBA

Since late August, Cuban officials have been seeking debt relief from both private and public creditors holding medium and long term convertible currency debt. It has proposed the rescheduling of \$1.3 billion in principal repayments falling due between September 1982 and the end of 1985.

Exposure of U.S. banks is negligible. The U.S.G. carries \$83 million in repudiated debt on its books. Although the U.S. does not have active credits outstanding it has sought agreement from Paris Club members for applying standard Paris Club procedures and limiting the amount of debt relief extended. The U.S. anticipates being an observer at future talks.

MEXICO

The Mexican financial situation remains precarious, but is reasonably on track. Mexico needs to agree as quickly as possible to a sound IMF stabilization program. An IMF team is in Mexico now. Commercial banks' willingness to roll over debt coming due beyond the 90-day period ending November 21, to provide new money (discussions center around \$500 million to \$1 billion), and to restructure debt to lengthen maturities depends on progress toward an IMF program. The bankers are assessing Mexico's cash needs now. In the meantime, Mexico has access to \$1.85 billion (half U.S.) in central bank credit via the BIS, assuming it continues to make progress on IMF negotiations.

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PERU

Peru has had debt problems in the past and still has a high level of debt, but it has generally managed its debt well. Low commodity prices have hurt. Notwithstanding economic deterioration in 1981-82, payments difficulties are not expected in 1982. Peru already has an IMF program totalling nearly \$1 billion from 1982-1985.

VENEZUELA

Despite high levels of international reserves (\$12 billion excluding gold but including "called in" reserves of state agencies at mid-September 1982), Venezuela's creditworthiness is eroding. Venezuela's efforts to restructure its public external debt (about \$25 billion) will be difficult and sharply higher spreads are probable.

Venezuela's exchange rate has been overvalued for a number of years, but Venezuela has been helped by oil price rises and an accumulation of reserves. Nonetheless, it has built up substantial debt, much of which is short-term. Still, Venezuela is in little immediate danger of experiencing payments difficulties in the near term.

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